

CHAPTER 2

HOUSING TRUST FUND GUIDELINES

Section 200 Purpose

This chapter contains the Housing Trust Fund (HTF) guidelines for the award and management of all HTF capital funds.

Section 201 Program Guidelines

201.1 Priorities and Preferences

The Department of Commerce (hereafter Commerce) Housing Division will balance the statutory requirements to provide for geographical distribution and to give priority to projects that use existing housing stock.

- In accordance with RCW 43.185.050(1), at least 30 percent of the funds over the biennium will be targeted to projects located in rural areas of the state.
- Readiness of each project will be considered.
- Preferences based on existing statutory criteria in RCW 43.185.070(3) will be considered.

201.2 Funding Limits

- Per Project:
 - The maximum award amount provided to a rental housing project is \$2.5 million for a tax credit project (9% or 4%).
 - Projects not leveraging tax credits may be eligible for an award of up to \$3.5 million. In order to request this amount per project, projects will need to meet certain criteria, including but not limited to, the geographic location, structure and financing of the total project and client type to be served. Projects eligible for this level of investment will be prioritized based on readiness, population to be served, lack of other available resources to finance the project, long term financial viability, not leveraging additional debt service and the potential of cost savings to the project for the additional level of HTF investment. Applicants seeking this level of investment for a project should scope their project with staff prior to the submission of an application for funding.
- Any amount in excess of these per project limits will require a written waiver request, which will be subject to review and approval by the Managing Director of the Housing Trust Fund.
- Per Applicant: The maximum award amount per applicant per funding round is \$4 million. This funding limit helps to ensure the distribution of limited HTF resources among affordable housing projects statewide.

Project Funding Limit Waiver Criteria

If the proposed request for funds exceeds HTF funding limits, a letter addressed to the Managing Director of the Housing Trust Fund requesting a waiver is required. The waiver letter must include a discussion of the reasons for the waiver request. The request must be consistent with

the information that is provided in the project summary. In the letter, address one or more of the following items:

- Project Readiness: Factors that determine readiness include: site control, funding sources committed, permits obtained, etc.
- Scale of Project: For very large rental housing projects that are leveraging a substantial amount of other funding, or for smaller special needs projects
- Target Population: If the project targets very low-income households (30 percent and below area median income) and no other local/public funds are available. This could apply to projects in jurisdictions that don't have their own HOME, CDBG or levy funds.
- Applicant has exhausted all other alternatives and can provide evidence of attempts to secure other resources.
- Critical Timing: Applicant must discuss urgent reasons for funding the project in the current HTF application round.
- Multi-location program size – two or more counties.
- An innovative, sustainable (contributes to lowering cost to maintain, operate) or special needs project that requires more funding.
- Urgency: In the case that one applicant is applying for multiple projects, a narrative explaining the need to apply for multiple projects resulting in exceeding the funding cap is required.

When requesting a funding limit waiver, past performance with HTF will be considered. This will include but not be limited to whether past projects were completed on time, within budget and in accordance with HTF guidelines.

201.3 Terms of Grant and Loans

- As directed by RCW 43.185.010 & 43.185.050(1), Commerce will establish a continuously renewable resource to assist low and very low-income citizens in meeting their basic housing needs, and that the needs of very low-income citizens should be given priority and that whenever feasible, assistance should be in the form of loans.
- CTED's preference is to give the lowest cost funds to projects targeting the lowest income or special needs households or to projects located in areas of the state with limited resources, provided the underwriting of the project supports the terms of the HTF award.
- The term of a HTF award will be 40 years or less, except when otherwise approved by the Department.
- CTED will provide awards in the form of amortized loans, deferred loans, recoverable grants or a combination of these.
- Grants may be provided to projects serving the lowest income, highest need populations, requiring public operating subsidy to cover basic operating expenses. These projects will typically not have the cash flow or financial ability to service additional debt reflected in the operating pro forma submitted and reviewed as part of the application process. Grants may need to be structured based on the nature and additional sources being leveraged as in the case of HUD funded projects.

- Loans may be amortized or deferred. Loans will be structured based on the project's operating pro forma. Deferred loans will have principal and interest, if interest is being charged, due and payable in full on or before the termination date of the contract. Loan terms may be set based on the needs of other funding sources such as the Federal Low-Income Housing Tax Credit program.

Loans

The following conditions will apply for any HTF Loan:

- Interest rates may vary from 0-3% interest, compounded quarterly.
- Payments will be made quarterly.
- All loans will include at least a one-year deferral period with 0% interest and the balance amortized for no more than 39 years, except when otherwise approved by the Department.
- The State's interest in the property will be secured by appropriate collateral and documentation.

Recoverable Grants

Recoverable grants are funds awarded to a CONTRACTOR with no expectation of monetary return, unless the conditions of the grant are not met.

- Recoverable Grants may be used for very low-income projects, with little to no rental income and large operating subsidies, including but not limited to shelters, many types of special needs housing, and seasonal housing for farmworkers.
- Funds are recoverable if there is a change of use, change of ownership, refinance, sale of property, or for non-compliance of contract terms.
- The State's interest in the property will be secured by the appropriate documents.

201.4 Prevailing Wage

Applicants awarded HTF funds may be subject to the state prevailing wage law, Chapter 39.12 RCW. Applicants are hereby advised to consult the Washington State Department of Labor and Industries and/or private legal counsel to determine whether prevailing wages must be paid. The HTF is not responsible for determining whether prevailing wage law applies to any specific project. The successful applicant is responsible for notifying all contractors and/or sub-contractors who will work on the project of any prevailing wage requirements. Applicants should determine if prevailing wages must apply to their project and all cost estimates provided in the HTF application must reflect prevailing wages if required. The construction cost estimate submitted in the application should state whether prevailing wages are being used in the estimate.

The Washington State Department of Labor and Industries has the following website providing information on prevailing wages: <http://www.lni.wa.gov/TradesLicensing/PrevailingWage/>
The telephone number is (360) 902-5335.

201.5 Use of the Apprenticeship Program

For HTF contracts where the **total project construction costs** are one million dollars (\$1,000,000.00) or more, CONTRACTOR shall place apprentice training program requirements in their construction contractor bid package. They must also make best efforts to select a prime contractor that will hire apprentices enrolled in an approved apprenticeship program and who will procure sub-contractors who will also hire apprentices who are enrolled in an approved apprenticeship program as described in RCW 39.04.300 through 39.04.320. All specifications shall require that no less than fifteen percent of the labor hours be performed by apprentices enrolled through the Washington State Apprenticeship and Training Council (WSATC). "State-approved apprenticeship training program" means an apprenticeship training program approved by the Washington state apprenticeship council. If there is justification, as set forth in RCW 39.04.320, to adjust the requirements of this law, CONTRACTOR may submit a written waiver request to the Department.

It is the CONTRACTOR'S responsibility to acquire a completed "Statement of Apprenticeship/Journeyman Participation" form from the general contractor that includes subcontractor data. This form will be submitted to Washington Community Reinvestment Association (WCRA) and the HTF contract manager with each voucher request. This reporting form will be provided to the applicant by the WCRA.

More information on the Apprenticeship Program is available at the Washington State Department of Labor and Industries website, at <http://www.lni.wa.gov>. Information about apprenticeship opportunities is available at the Washington State Employment Security website, at <http://www.wa.gov/esd/employment.html>. A list of L&I statewide offices can be found at <http://www.lni.wa.gov/Main/ContactInfo/OfficeLocations/default.asp>.

201.6 Historical or Cultural Artifacts

Certain capital construction projects may be subject to the requirements of Washington State Executive Order (EO) 05-05 "Archaeological and Cultural Resources". Exceptions to this requirement include federally funded projects, which are already subject to a review under Section 106 of the National Historic Preservation Act. This EO may be found at <http://www.dahp.wa.gov/pages/environmentalreview/laws.htm>. This EO may require a review of capital construction projects and land acquisitions with the Department of Archaeology and Historic Preservation (DAHP) as well as affected Tribes. Also, in the event that historical or cultural artifacts are discovered at the project site during construction or rehabilitation, the CONTRACTOR or builder/contractor shall immediately stop construction and notify the local historical preservation officer and the state historic preservation officer at (DAHP) at (360) 586-3065. DAHP may also be contacted at <http://www.dahp.wa.gov/>. DAHP's EZ forms are used to satisfy State and Federal requirements for project compliance reviews. Use of these forms is highly recommended and will expedite the review process. The EZ forms, available on our website, are:

EZ1 (Project Review Sheet)

<http://www.cted.wa.gov/DesktopModules/CTEDPublications/CTEDPublicationsView.aspx?tabID=0&ItemID=6932&MIId=870&wversion=Staging>

EZ2 (Determination of Eligibility), and

<http://www.cted.wa.gov/DesktopModules/CTEDPublications/CTEDPublicationsView.aspx?tabID=0&ItemID=6933&MIId=870&wversion=Staging>

EZ3 (Building Rehabilitation Worksheet)

<http://www.cted.wa.gov/DesktopModules/CTEDPublications/CTEDPublicationsView.aspx?tabID=0&ItemID=6934&Mid=870&wversion=Staging>

201.7 Evergreen Sustainable Development Standard

All affordable housing projects or programs receiving Housing Trust Funds from the state capital budget after July 1, 2008 are covered by [RCW 39.35D.080](#), and will be built or implemented according to the Evergreen Sustainable Development Standard (ESDS). Please refer to **Section 207** for detailed information pertaining to the ESDS.

Section 202 Eligibility Guidelines

202.1 Eligible Applicants

The following types of organizations are eligible to apply for HTF funds as referenced in RCW 43.185.060. Although an organization may be eligible to receive HTF funds, the proposed project or activity must also be eligible (see 202.2 and 202.3). The organization types are:

- Local Governments
- Local Housing Authorities
- Nonprofit Community, Neighborhood, State or Regional Organizations
- Federally-recognized Indian tribes in Washington State
- Regional support networks established under RCW Chapter 71.24

Nonprofit organizations applying to the HTF must submit a certification from the Washington State Secretary of State to verify they are registered to do business in Washington as a nonprofit organization in accordance with RCW 24.03. Furthermore, nonprofit organizations must submit a letter from the Internal Revenue Service designating them as a tax-exempt nonprofit organization. (See Chapter 4)

202.2 Eligible/Ineligible Project Types

HTF funds shall be used for projects where housing is the primary focus or need, not treatment or nursing care. If you have any questions regarding eligibility, please contact HTF staff. The following project types are designated as eligible or ineligible for HTF funding:

Eligible Project Type:

- Assisted living facilities
- Boarding homes
- Community land trusts
- Emergency shelters (including shelters for survivors of domestic violence)
- Group homes
- Homes/loans for low-income homebuyers
- Multi-family rental housing

- Seasonal and year round housing for farmworkers
- Transitional housing

Ineligible Project Type:

- Alcohol treatment facilities
- Chemical dependency treatment facilities
- Correctional facilities
- Facilities providing continual or frequent nursing, medical or psychiatric services
- Medical treatment facilities
- Nursing homes
- Private foster care facilities
- Student housing

202.3 Eligible Activities

The following activities are eligible for state funding from capital bond proceeds as indicated in RCW 43.185.050(2-5) and from portions of the HOME program. The RCW allows additional activities to be funded by the HTF; however, use of capital bond proceeds, which are the major source of revenue for the HTF, is restricted to the activities listed below:

- Acquisition of real property
- Acquisition to preserve low-income or very low-income housing
- Down payment or closing cost assistance for eligible low-income homebuyers
- New construction
- Rehabilitation of single and multi-family housing
- Site improvements (on-site only)
- Note: Off-site improvements may be eligible under the CDBG Housing Enhancement Programs. Refer to Chapter 6 of this Handbook.

202.4 Eligible Populations

Housing units supported by the HTF may provide housing to households with incomes up to, but not exceeding, 80 percent of the local area’s median income as stated in RCW 43.185.010, 43.185A.010(5) and 43.185A.030(1).

The state’s HOME funds are targeted to households with incomes at or below 50 percent of the local area’s median income.

Certain population groups may also be served by a specific budget set-aside. Information on budget set-asides will be included in the application package for each funding round.

202.5 Eligible/Ineligible Costs

Eligible project related costs that can be reimbursed with proceeds of state capital bonds and HOME program funds include the following:

- Accounting/Audit expenses during development period
- Appraisal
- Architectural/Engineering costs
- Bond premium
- Boundary and topographic survey
- Closing, title, and recording fees
- Construction loan fees
- Developer fees
- Environmental site assessment
- Geotechnical study
- Hazardous abatement and monitoring
- Impact/mitigation fees
- Infrastructure improvement (if within property boundaries of the project)
- Insurance costs during development period
- Landscaping
- Legal
- Low Income Housing Tax Credit (LIHTC) fees
- Major appliances (e.g. stoves, refrigerators, washer/dryer, dishwasher)
- Marketing/leasing expenses
- Marketing study
- Other loan fees (Impact Capital, State HTF, etc.)
- Permits, fees, and hook-ups
- Playground equipment if solely for residents
- Project management
- Property acquisition
- Purchase and sale extension payment
- Real estate taxes during development period
- Replacement Reserves (except for projects using HOME funds)
- Relocation expenses for projects using HOME funds
- Sales taxes
- Technical assistance

- Utility costs during development

Please see 403.4 for voucher request processing and 402.1 for Electronic Funds Transfer information in Chapter 4.

Ineligible costs include but are not limited to:

- Administrative expenses (see glossary)
- Computers
- Furniture
- Office equipment
- Operating reserves and operating subsidies
- Relocation expenses (except with HOME Program funds)
- Carrying costs at rent-up
- Off-site infrastructure (may be eligible under the state CDBG program, refer to Chapter 6)
- Soft Cost Contingencies

Section 203 Project Guidelines

203.1 Affordability

Rent payments, including tenant-paid utilities, may not exceed 30 percent of the maximum monthly income level established for each assisted housing unit. Rents are based on the income of the target population rather than the individual household income and are based upon the most current HUD AMI rent schedule, less the applicable utility allowance. This requirement does not apply to homeownership projects.

203.2 Length of Commitment

To ensure that housing funded by the HTF will remain affordable to low income households for a maximum amount of time and to be in compliance with RCW 43.185.070(3)(f), applicants must commit to serving the project's target population for 40 years.

- The length of commitment will be secured by a covenant running with the land, except in the case of homeownership.
- For projects serving people with special needs, any change during the length of commitment to the population served or to supportive services must have prior approval by CTED.

203.3 Tenant Relocation

Relocation assistance must be provided to any tenants who are permanently or temporarily displaced.

- All projects requiring tenant relocation must submit a description of the relocation plan, how much it will cost, and what funding source(s) will be used.

- HTF funded projects must follow the relocation requirements as required by Washington State's Department of Transportation (DOT). DOT's relocation requirements (RCW 8.26) can be accessed at the following website address: <http://apps.leg.wa.gov/rcw>.
- Projects funded with HOME funds must follow the federal Uniform Relocation Act (URA), Section 104/requirements.
- DOT and URA require notices be sent to tenants regarding the type of displacement and benefits provided to tenants, and applicants must submit samples that they are using.
- Relocation costs are not an eligible use of state capital bond proceeds but are an eligible use of HOME funds.

203.4 Project Location and Consistency with Local Plans

- Projects receiving HTF funds must comply with applicable local comprehensive plans (Growth Management) and local HUD Consolidated Plans and must meet all zoning and building code requirements of the local jurisdiction.
- Projects for homeless families or individuals, including those applying for funds from the homeless families with children set-aside, must be consistent with a local or state Continuum of Care plan and the local Homeless Plan.
- Projects accessible to services, jobs, transportation and amenities are strongly encouraged and will be given preference in accordance with RCW 43.185.070(3)(k)(l)(m).

203.5 Project Schedule

The application will include a project schedule that at a minimum will provide the following information. *Be sure to note processes under way in your schedule, including ESA Phase 1 and any zoning variances/design departures in negotiation.*

- A list of realistic milestones that provide a comprehensive picture of tasks, completion dates and staff responsibilities. Form 4 in the application provides a place to enter specific benchmark dates in the areas of site control, feasibility analysis/due diligence, financing, design/permitting, construction, and occupancy. The applicant should include any additional tasks or benchmarks appropriate to their project.
- The estimated date when units will be placed-in-service should be submitted. Rental projects shall have at least 90% occupancy to be placed-in-service. See Section 406 in Chapter 4.
 - The usual expectation is that projects will be placed-in-service within 2 years of contract execution. On a case-by-case basis, this guideline may be waived. For example, a tax credit project that has 2 years from their carry-over date to complete their project could receive an extended completion date. Another example is a self-help housing project that buys several parcels but only completes a small number of homes at a time. If specific timelines are established, a waiver may be considered.
- The Project Schedule sets the dates that will be used as key performance measures in assessing organizational capacity by HTF staff. See 406.3 in Chapter 4.

Section 204 Project Financial Guidelines

204.1 Construction Lending

If, in the development budget, an applicant proposes using HTF funds for construction or rehabilitation and a building permit is required, Commerce will be considered a construction lender and will contract with a third party to manage the review of project construction.

204.2 Construction Contingency

- In the development budget applicants will assume a minimum construction contingency of 10 percent for new construction and 15 percent for rehabilitation.
- Exceptions to the HTF construction contingency requirements may be considered on a case-by-case basis. Applicants must justify any variations from these minimums in the application.
- The construction contingency requirements apply even though applicants do not propose using HTF funds for the construction contingency line item.
- If HTF funds are allocated in the budget for construction contingency, the CONTRACTOR will need to acquire prior approval from the CM, and submit documentation and a full explanation for the use of the contingency, before the CONTRACTOR can access the funds.

204.3 Operating Expenses

CTED does not have a published list of allowable cost range or cost per unit range. All applications must include an operating expense budget prepared by the proposed management entity with a detailed justification supporting the proposal. In the case of homeownership an affordability analysis will demonstrate compliance with this provision.

- Projects may be allowed to use cash flow to pay for services that are needed by project residents, subject to HTF staff review and approval. Detailed information on the type and amount of services will be required in the application. If you apply for O&M Program Funding you cannot divert rental income to pay for services to tenants. This means for applicants requesting O&M Program Funding that if the project has service related expenses that service related income must cover the total cost.
- If a project is serving a target population requiring services and the applicant is paying for services, the cost of services is included in the operating pro forma. If services are provided by another organization as in-kind services, the cost is excluded from the operating pro forma. Only direct services are included on the form that details revenues and expenditures of services.
- Operating costs will be subject to review every year as part of the annual report.
- Projects receiving Operating and Maintenance Funds will be reviewed annually by Commerce to determine the need for continued subsidy. Refer to Chapter 7.

204.4 Vacancy Rates

Applicants will use a minimum 5 percent residential vacancy rate and a 10 percent non-residential vacancy rate when preparing their operating pro forma. A vacancy rate higher than these

minimums must be justified. Exceptions will be considered in the case of very small projects and special needs projects where justified.

204.5 Reserves

Operating Reserves

Operating reserves are intended to provide a facility operating funds during periods when occupancy rates are lower than expected and operating income is not sufficient to pay the fixed costs of operating the facility, such as utility payments, debt service, and salaries.

- All projects, except for special needs projects, must demonstrate the ability to capitalize a three-month operating reserve in the operating pro forma, by the end of the second full year of project operation. The operating reserve will consist of three months of the project's first year operating expenses.
- Thereafter, operating reserves should continue to be funded for the life of the project. Over time, as actual operating expenses increase, the operating reserves should also increase. Applicants may choose to maintain a higher level of reserves, but not lower.
- HTF capital construction funds cannot be used to capitalize operating reserves with the exception of special needs projects.

Operating Reserves for Special Needs Projects

Special needs projects may use capital construction funds to capitalize operating reserves within the development budget. The minimum capitalization of operating reserves will consist of at least three months of the project's first year operating expenses.

Replacement Reserves

Replacement reserves are intended to accumulate and provide funds when needed to replace or maintain major systems of the building. The amount of replacement reserves from capital and/or operating income over time should be able to pay for the projected major maintenance and replacement needs of that project for the next 20 years. The per unit reserves are reflected in the development budget if they are capitalized and they are reflected in the operating pro forma if they are to be deposited out of operating income.

- Minimum replacement reserves for rehabilitation projects shall be determined by the required capital needs assessment and life cycle cost analysis. (The estimated useful life estimates of a life cycle cost analysis must come from a nationally recognized organization such as "Marshall and Swift".)
- Applicants must assess their projects and establish replacement reserves based on maintaining long-term viability of the property. The assumptions behind the amounts put into the budgets should be stated as part of the narrative explanation for that line item.

204.6 Developer Fees

The following guideline pertains only to the HTF portion of the developer fee:

- HTF does not limit the total developer fee for a project, only the portion of the HTF award that will be used for developer fee although it is expected that the fee is in line with industry standards.

- No more than 10 percent of the HTF award may be used for developer/project management fees.
- Reimbursement of the developer fee payable from HTF funds shall be proportional to the degree of project completion or HTF funds drawn, at the discretion of each HTF contract manager. Not less than 10 percent of the developer fee payable from HTF funds shall be retained by Commerce until the CONTRACTOR has completed the project and complied with all submittal requirements and terms and conditions of the contract.

204.7 Debt Coverage Ratio

- Projects must have an overall Debt Coverage Ratio (DCR) that provides a cushion against risk that may result from unforeseen circumstances, including higher than anticipated vacancy rates.
- Deferred loans are not considered in the DCR calculation during the deferral period, only the year when they become due and payable. The annual contributions to operating and replacement reserves must be included in the operating expenses when calculating the DCR.
- Projects should have an overall DCR of at least 1.10:1.
- CTED reserves the right, during contract development, to direct the use of excess cash flow when a project has an overall DCR greater than 1.20:1.

204.8 Subordination

- CTED is willing to subordinate its financial lien position to private lenders, but its covenant is not subject to subordination. Commerce will require review and approval of private lenders subordination agreements, prior to subordination.
- Subordination of Commerce debt to other public debt is granted on a case-by-case basis after negotiation with the public lender. Commerce subordination to other public lenders is determined by the size and type of investment of the other lender in a particular project. Generally speaking, the greater a public funder's investment in a project, the higher its lien position.

204.9 Funding Commitments/Leverage

- The applicant should demonstrate support for the project from local organizations and local government. Commitment of funds for capital development from local organizations and/or local government is a strong indicator of local support. This could also include waivers of fees including impact fees, utility hook-ups, or building permits. Operations and maintenance support in the form of project-based Section 8, local O&M commitments or other local subsidies are acceptable as well.
- Applicants need to document funding commitments and leverage in the HTF application. Letters of commitment are also required for committed donations including sponsor contributions.
- Applicants will need to submit a capital campaign plan if applicable.
- Applicants need to disclose where they have sought funding and why they have or have not secured those funds.

- CTED may award funds even though funds from other sources have not been committed. However, Commerce will not release funds until all funding commitments are confirmed.
- All HTF contracts must be executed within 12 months of the HTF award or the award may be rescinded.

Section 205 Project Documentation Guidelines

205.1 Market Study

A market study must accompany the application if your project involves low-income housing tax credits or if another funder requires a market study.

Market studies are not required for:

- Projects whose financing does not include 4% (bond) or 9% (competitive) Low Income Housing Tax Credits (LIHTC's)
- Projects whose financing does not include another public funder which requires a market study
- Scattered site single family projects - rental or homeownership
- Projects for persons with Developmental Disabilities (DD)
- Projects for persons with chronic mental illness (CMI)
- Projects for homeless persons
- Domestic violence (DV) projects
- Special needs projects for persons with chronic substance abuse issues combined with homelessness and/or other conditions requiring intensive support services.
- Group foster care projects
- Tribal projects on tribal land.
- Rent subsidized multi-family projects (project-based)
- Seasonal occupancy Farm Worker projects

If your project does not meet any of the above criteria, a market study is required. The market study must:

- Be prepared by a professional independent analyst who is on the Washington State Housing Finance Commission's approved analyst list.
- Be dated no more than 12 months prior to the application deadline. Updates to existing market studies will be accepted. On a case-by-case basis, this guideline may be waived with written documentation.
- Include a detailed project description including site amenities, unit mix, comparison to market rate projects, comparison to other rent restricted projects (not just tax credit properties), and a precise delineation of the market area.
- Include detailed data and description of the market rate and rent restricted housing supply and demand including under-served or specialized low-income markets and vacancy rates specific to

the target population of the proposed project with a conclusion about the proposed project's competitive position.

- Include a rent gap analysis including both market rate and rent restricted housing. Must include specific conclusions, supported by data, on both the current and projected market need, the size of the pool of qualified potential residents, the demographic profile of the typical income eligible resident, absorption rate, and the viability of the proposed project as sited.
- If an applicant has site control the market study must be submitted with the application. If site control has not been obtained, the market study must be submitted upon receipt of site control.

205.2 Site Control

- Site control is required at the time of application for all multi-family projects and single-family subdivision developments. A detailed description of the site and site control documentation must accompany the application.
- Site control documentation includes the following: a deed of trust, current option, current purchase and sale agreement, a current title report showing the entity holding fee simple title, an executed lease agreement for the length of the commitment to serve low income households, or an executed disposition or development agreement.
- Exceptions are allowed for scattered site homeownership programs, and owner occupied rehabilitation. In most cases, site control is required before the contract is executed.
- Single-family rental housing projects must provide documentation identifying the pool of available single-family properties. Such documentation may include lists of properties in the proposed size, location, condition and price range and other comparable information. Commerce retains the right to confirm, prior to disbursing funds for any particular site, the development and operating budgets and any other pertinent information for each site. HTF awards for single-family rental projects are contingent upon CTED's approval of each proposed site.

205.3 Phase I Environmental Site Assessment

Multi-family projects and subdivision developments will provide a Phase 1 Environmental Site Assessment (ESA) to insure that any environmental hazards are recognized and mitigated. A Phase 1 Environmental Site Assessment will be submitted with the application. Each assessment will include limited surveys of lead-based paint, asbestos, mold, and wetlands as applicable (see below). If any hazards are identified, they will be abated or mitigated before occupancy. The Phase 1 Environmental Site Assessment must be dated one year or less from the due date of the HTF application.

Single-family rental projects are required to have a limited survey of lead based paint, asbestos and mold hazards for each property. A completed Environmental Checklist as defined by CTED, will be submitted to Commerce upon receipt of site control for each single-family home. Commerce reserves the right to deny funding to a project based on risk, cost, or feasibility of mitigation.

Projects receiving federal funds from Commerce must meet federal environmental review requirements.

A Phase 1 Environmental Site Assessment must:

- Accompany multi-family, subdivision, or mobile home park applications.

- Be carried out according to the American Society for Testing and Materials (ASTM) E1527-2000 standard.
- Be dated no more than 12 months prior to the HTF application due date. A letter updating a Phase 1 completed more than 12 months prior to the application due date will be accepted.

If the Phase 1 ESA identifies any environmental hazards and recommends a Phase 2 ESA, then it is required and must be included in the application when available.

205.4 Asbestos, Lead-based Paint, Mold, and Wetlands

The ASTM E1527-2005 standard Phase 1 ESA does not require assessments for asbestos, lead-based paint, mold, or wetlands. However, these concerns must be addressed as part of the due diligence requirements in HTF applications.

For all existing buildings, limited surveys for asbestos, lead-based paint, and mold are required to be submitted with the application. At a minimum, these will provide documentation of a site inspection and a conclusion regarding the presence of these concerns following the stated sampling methods that were applied. Specify these as required additions when ordering the Phase 1 ESA.

For all vacant land, a limited wetland survey is required. At a minimum, this should include documentation of a site visit, a survey of data regarding the documented presence of wetlands in the geographic area of the project site, and provide a conclusion regarding the presence of a wetland following the stated analytical method that was applied.

If the presence of asbestos, lead-based paint, mold, or wetland is confirmed or the probability of their presence is high, then a plan to mitigate, abate, or manage each issue must be developed and submitted in the HTF application. This plan must include the cost for each, and those costs must be reflected in the development budget.

205.5 Management Plan

A management plan is required to ensure the responsible operation of the project for the length of the commitment. The proposed management plan must be described in the application. See Section 403.6 for required content. Also, see Section 207.8 for instructions related to the Owner's Manual and Occupant's Manual, which should be included in the Management Plan.

If a proposed project is acquiring an existing building currently serving tenants, then a management plan will need to be submitted during the contracting process. For new construction projects, contractors will negotiate with the contract manager when the management plan is submitted. See 403.6 in Chapter 4.

205.6 Special Needs Documentation

- Projects for persons with developmental disabilities must have a letter from the Department of Social and Health Services (DSHS) Regional Office confirming that they are aware of and approve the proposed project. A referral agreement with the DSHS must be executed and submitted prior to execution of the HTF contract. The referral agreement is needed to ensure each resident meets the eligibility requirements of DSHS DDD program.

- Projects for persons with chronic mental illness must have a letter of support from the lead person of the Regional Support Network (RSN) confirming that the project is consistent with the RSN's plan.
- Projects for homeless persons and families must have a letter from the lead person of the local Continuum of Care Planning Group confirming that the project is consistent with the Continuum of Care Plan.
- Projects that require special licensing must provide documentation of current license. Projects applying for an initial license must provide a letter of support from the licensing agency.
- Letters and licensing documentation relating to this section must be submitted with the application.
- Applicants must provide documentation of all service funding commitments in the application.
- If primary support services for special needs populations are provided by an agency or organization that is different from the applicant, then a Memorandum of Understanding (MOU) must be submitted that defines the roles and responsibilities including the nature and scope of duties of each entity. The MOU must also include how costs will be covered.

205.7 Appraisal

If the applicant is proposing the purchase of real property and/or building(s), a full appraisal must support the purchase price. If the property is clearly being offered at a below market price, a current property tax assessment may be acceptable.

An appraisal must be dated no more than 12 months prior to the application due date. A letter updating an appraisal completed more than 12 months prior to the application due date will be accepted. At a minimum, Commerce requires an appraisal based on the highest and best use. An appraisal is required even if HTF funds are not being used for acquisition of the property. The appraisal must be conducted by someone with a current general appraisal certificate in the State of Washington.

An appraisal is not required if the property is being donated, not purchased, or if the property is already owned by the applicant and does not require acquisition funding. However, the value of that property must be supported at a minimum by the county's current tax assessment.

For projects that are exempt from site control at the application due date (see 205.2), appraisals will be required before funds are released.

Scattered site homeownership projects and down payment assistance programs are exempt from the appraisal requirement.

205.8 Construction Cost Estimate

Rehabilitation and new construction costs must be justified by a construction cost estimate prepared by a professional independent third party. The cost estimate must be submitted on the professional cost estimator's letterhead. Acceptable parties include the project architect, engineers, or professional cost estimators. In order to ensure that project costs are accurate in the current market and match the construction plans, Commerce strongly advises applicants to engage a professional cost estimator or have the project architect use a professional cost estimator. The construction cost

estimate must be submitted with the application. If site control has not been obtained, the cost estimate must be submitted upon receipt of site control.

- In the case of rehabilitation, the construction cost estimate must be based upon the capital needs assessment and must include unit-by-unit details of estimated costs.
- The construction cost estimate must specifically reflect design features that are described in the application. This includes all costs associated with design features elected in the Evergreen Sustainable Development Standard (ESDS).
- In the case of new construction, the construction cost estimate must include detail sufficient to indicate the life cycle of the building systems. A summary estimate will not be considered sufficient.
- The cost estimate must include an escalation factor. This is intended to reflect construction cost increases from preparation of the cost estimate through the signing of the construction contract.
- The estimates and assessments should be dated no more than 12 months prior to the HTF application due date. The construction cost estimates must include an inflation adjustment, or some statement assuring the relative accuracy of costs linked directly to the planned construction start date.
- The construction cost estimate should state clearly whether prevailing wages were used or not in completing the estimate.
- The construction cost estimate must correspond with the line items submitted in the development budget. Any differences must be documented and explained.

205.9 Capital Needs Assessment

- A capital needs assessment is required for all existing buildings except for “gut” rehabilitation projects. The capital needs assessment must be submitted with the application.
- A professional, independent party must complete the capital needs assessment.
- The capital needs assessment should include the inspection of all units. If 100% of the units are not inspected, then an explanation is required. This explanation should include at a minimum any assumptions about any of the areas that were not inspected and the reasons for making those assumptions.
- A professional third party inspection is required for single-family rentals.
- The capital needs assessment usually provides the scope of work from which the construction cost estimate is developed. If the construction cost estimate and its scope of work differs from the capital needs assessment, the applicant must provide an explanation.
- The capital needs assessment must include a life cycle analysis of all building systems, an estimate of any capital contribution to replacement reserves if needed, and an estimate of the annual replacement reserve contribution. (The estimated useful life estimates of a life cycle cost analysis must come from a nationally recognized organization such as “Marshall and Swift”.)
- Homeownership projects and owner-occupied rehabilitation projects are exempt from this requirement.
- Projects that do not require a building permit are **not** exempt from obtaining a capital needs assessment.

205.10 Zoning and Consistency with Local Plans

- Applicants shall provide a letter from the local jurisdiction that the site is properly zoned. The letter shall also note that the proposed project has received all necessary local plan approval(s). If a variance, special or conditional use permit is required, the local jurisdiction will provide a letter discussing the likelihood that such approval can be obtained prior to the execution of the HTF contract. The letter must be submitted with the application.
- If a proposed project will continue an existing use, a zoning letter is not required.
- For projects located in HUD participating jurisdictions, applicants shall provide a signed letter of consistency with the local Consolidated Plan.

205.11 Low Income Housing Tax Credit (LIHTC) Documents

The common application now includes the basic information required by the WSHFC for Tax Credit applications. This includes the LIHTC budget (Form 1D), credit factor calculations (Form 1E, and scoring synopsis sheet (Form 11). Applicants not pursuing LIHTC's need not complete these forms when submitting to HTF.

Section 206 Applicant Documentation Guidelines

PLACEHOLDER: WSQA LANGUAGE NEEDED

206.1 Fiscal Soundness

Applicants will need to demonstrate, with a reasonable level of assurance, that the sponsoring organization is fiscally sound and has reliable systems to manage and account for public funds. The following documents will be submitted at CTED's request:

- Complete audit reports for each of the past two years for the applicant, including an OMB circular A-133 supplement as appropriate, any audit findings, corrective action plan, management letter and agency response.
- If the applicant organization has not been audited, financial statements for each of the past two fiscal years and a year to date statement certified by the applicant's Chief Financial Officer. Financial statements will include balance sheets and cash flow, revenue and expense and long-term debt statements.
- If the applicant organization has not been audited, tax return form 990 for the past two years if a nonprofit organization.
- Outstanding HTF Annual Reports.
- Current monitoring or other report from licensing agency, if license required.

An applicant's past performance and experience working with Commerce will be a major factor in determining organizational capacity. The following areas of performance will be considered:

- Timely submission of loan payments
- Accurate, complete and timely submission of annual reports
- Amount and status of current projects under development
- Prior projects completed on schedule

- Prior projects completed within original projected budget
- Proper and timely submission of legal documents

Additional evaluation and assessment will be required for organizations that have projects in workout status. Refer to Chapter 5 for additional information.

206.2 Staff Skills and Experience

Applicants must demonstrate that the skills and experience of the development team and the property management team, and the capacity of the organization are appropriate to the size and complexity of the project. The following documentation will be reviewed:

- List of key property management staff and their qualifications and experience.
- List of key development team members and their qualifications and experience.

206.3 Board Composition

New applicants must submit a list of Board members, addresses, occupations and length of tenure on the board including any terms of office prescribed by the organization. The Board must have a minimum of three unrelated adults.

206.4 Board Resolution

A copy of a signed board resolution or board minutes authorizing submittal of an HTF application must be submitted with the application.

206.5 Washington State Quality Award

Beginning in 2011, eligible organizations receiving over \$500,000 during the previous calendar year from state housing-related funding sources must apply to the **Washington State Quality Award** program for an independent assessment of their quality management, accountability, and performance system once every three years, as required under [RCW 43.185C.210](#).

Section 207 Evergreen Sustainable Development Standards

207.1 Evergreen Sustainable Development Standard

All affordable housing projects or programs receiving Housing Trust Funds from the state capital budget after July 1, 2008 are covered by [RCW 39.35D.080](#), and will be built or implemented according to the Evergreen Sustainable Development Standard (ESDS). This Evergreen Standard was developed in compliance with the directions contained in the legislation and based upon an existing sustainable development standard chosen and adapted with stakeholder input. The purpose of ESDS is to set a minimum level of sustainable performance for all HTF projects. The Evergreen Standard is incorporated into the Stage 2 application (Form 2), but applicants are encouraged to include plans to fulfill Evergreen requirements as early as possible in their project development. To this end, the ESDS checklist is also available to download separately from the Evergreen Standard webpage at www.cted.wa.gov/evergreen. The Evergreen webpage also provides the latest edition of the Evergreen Standard Criteria, along with related forms, documents, and supporting information.

207.2 Threshold

The Evergreen Standard has 70 criteria including ones that safeguard health and safety, increase durability and sustainable living, preserve the environment, and increase energy efficiency. All mandatory criteria that apply to a given project are required to be included in the plans/specs, implementation, and construction. For new construction projects, 50 points must be achieved from the optional criteria. For rehab projects, 40 points must be achieved from the optional criteria. If a project consists of both rehab and new construction elements, a separate Evergreen Checklist must be submitted for each element, each of which must meet the appropriate threshold number of points. These thresholds must be met for a project to receive full consideration during its application review. (Note: Farmworker housing projects that are for *seasonal occupancy only* have different criteria and threshold requirements. A separate Evergreen Checklist for these projects is available upon request.) The threshold level must also be maintained and incorporated into project implementation and construction.

The HTF Resource Allocation Team may waive compliance with specific criteria if the applicant can demonstrate that the criterion creates a hardship or is inadvisable for a specific project and that alternative means meet the intent of the criteria.

207.3 Integrated Design

Integrated design is critical to accomplishing genuine sustainable development and is expected from all HTF projects. Integrated design is a process that involves all members of the development team from the beginning of design to identify project goals, constraints, and priorities. It should result in buy-in and commitment from every member of the development team. Early thinking in the design helps ensure that the project will be healthy, cost-effective, and environmentally sustainable by providing the opportunity for all stakeholders to communicate and help set goals while determining which green building elements are desirable and feasible.

Benefits of a well run integrated design process include:

- Clarifying goals among all project players in the beginning;
- Considering all possibilities of sustainable features from the start;
- Reducing chances of costly change orders;
- Achieving synergies across all disciplines and technologies using the total systems approach;
- Reducing overall costs by identifying green savings in the beginning that can be used to off set any additional costs from sustainable features; and
- Having an informed, unified, and committed design team.

Integrated design processes are usually implemented using a charrette model. A charrette is a focused and collaborative design process that harnesses the talents and energies of all interested parties to create and build support for a feasible plan.

A life cycle cost framework is essential to understand the long-term economic savings from a project oriented to sustainability. Traditional costing methods do not usually capture the economic benefits of sustainable development. Life cycle costing systematically takes into account the long-term costs of building operation and maintenance to provide a more accurate picture of the total costs associated with sustainable design decisions. It provides an estimate of the total cost of a structure including both the initial development and construction costs and the long-term operating and maintenance costs.

207.4 Project Sponsor Responsibilities

Sustainable planning begins long before the HTF application is due and the planning feeds into the application process. The document that captures that planning at the time of application is the [Evergreen Checklist](#). Project sponsors also submit a total development budget and construction cost estimate that includes the sustainable features identified in the Evergreen Checklist. Planning continues while the application is being reviewed and becomes more specific so that once a project gets an allocation of HTF funds, the project sponsor is ready to submit the [Evergreen Project Plan](#) (EPP). There is a very specific set of instructions which gives guidance on each of the Evergreen Criteria. It is essential that the [Evergreen Project Plan Instructions](#) are followed in order to produce an acceptable EPP. As HTF dollars flow into the project, the threshold level of applicable Evergreen Criteria will be implemented and maintained during the construction or rehab. This will be verified on site by a third party. If at some point during development the project is found to be out of compliance with ESDS, funds may be withheld by HTF until the issue is resolved.

207.5 Sustainable Development Project Manager (SDPM)

The project sponsor will designate a Sustainable Development Project Manager as the project sponsor's agent regarding the implementation of the Evergreen Sustainable Development Standard (ESDS) in the project. This person will have the following responsibilities:

1. Know the project plans and understand the specs for all of the ESDS measures in the project;
2. Communicate with HTF staff regarding the Evergreen Project Plan (EPP), its implementation, and any issues that may emerge during development related to it;
3. Communicate the progress, coordinate site visits, and facilitate verification and quality control with the 3rd party verifier;
4. Oversee the development process to make sure that the ESDS features are implemented and correctly installed, and troubleshoot any ESDS problems with the general contractor or sub-contractors.

The Sustainable Development Project Manager will communicate the construction schedule and its status and arrange the timing of the on-site inspections corresponding to the readiness of the Evergreen features to be reviewed with the 3rd party verifier.

207.6 Third Party Verifier (3PV)

The responsibilities of the 3PV are:

1. Initially review the project plans, specifications, and construction cost estimate to verify that the features and details on the final list (EPP) received from the HTF Contract Manager (CM) are included;
2. Track the application and installation of the features and details on the final list during construction of the project. Verify through direct observation that each of the applicable ESDS Criteria are implemented and that the quality of the installation meets the specifications. Additional documentation may be requested by the third party verifier from the SDPM as needed;
3. Alert and inform the CM about any emerging issues regarding the Evergreen features and their implementation;
4. Provide technical assistance to the SDPM while on the site to help the project meet the Evergreen Criteria;
5. Make a determination whether each individual Evergreen feature in the final list was installed or not and send the results of their observations to the CM after the completion of construction.

The 3PV will conduct on-site inspections in a consistent, fair, and transparent manner. The goal is to verify the correct implementation of ESDS features without holding up construction, and it will take both parties communicating early and cooperating often. Whenever possible, ESDS on-site inspections should be scheduled with draw inspections.

207.7 Evergreen Steps in the Development Process

1. Project sponsor submits the Evergreen Checklist (Form 2 of the Stage 2 application), Evergreen features on the Evergreen Checklist need to be included in the construction cost estimate.
2. The review team reads and evaluates the Evergreen Checklist to determine whether it passes the Evergreen threshold requirements for that specific project. If there are questions or concerns, the project sponsor is contacted and those are resolved. The project sponsor will agree to a definite date by which all additional information will be submitted, or the project will be dropped from further consideration in that particular funding round.

When a project receives funding, the project sponsor submits the complete Evergreen Project Plan (EPP) with all attachments to the CM assigned to the project.

3. The CM reads and evaluates the EPP to determine whether it still passes the Evergreen threshold requirements and whether the information regarding implementation is reasonable and complete. If there are questions or concerns, the SDPM is contacted and those are resolved. The project sponsor will agree to a definite date by which all additional information will be submitted. **The Evergreen Project Plan must be approved by the CM prior to disbursement of any HTF funds.**
4. The project sponsor sends the plans and specifications to the 3rd party verifier.
5. After the EPP is approved, the CM sends the approved EPP to the 3PV who has also received the development budget and the construction cost estimate.
6. The 3PV compares the construction cost estimate and the plans and specs to the EPP to make sure that the features listed in the EPP are reflected in those documents. If there are questions or concerns, the 3PV notifies the CM and the Sustainable Development Project Manager is contacted to resolve the issues.
7. The HTF contract is finalized and the project sponsor can draw down funds using the current voucher reimbursement system. The 3PV will provide oversight of draws and inspect the project on site to verify the installation and implementation of Evergreen features. The SDPM sets up, coordinates, and assists the 3PV with site visits on the inspection of Evergreen features.
8. At the end of development, the 3PV evaluates all the site visits and documentation reviewed and makes a final recommendation to the CM regarding whether the project has passed threshold.

If a problem comes up during development regarding agreed upon Evergreen features, the CM may withhold payment of voucher requests until the issue is resolved.

207.8 Owner's Manual and Occupant's Manual

The 3PV does not verify the mandatory Evergreen Criteria 8-1, 8-2, & 8-3. The Owner's Manual and Occupant's Manual are submitted to the CM as part of the Management Plan. The timeframe for submitting the Management Plan with these manuals is negotiated between the CM and the project sponsor. They will be reviewed by HTF staff for applicability and completeness. The CM may withhold payment of voucher requests until these documents are received.

It is the responsibility of the project sponsor to orient all residents on the sustainable features of the project including operations and maintenance and to keep a record of who delivered the orientation, when it was delivered, and who received the orientation for each unit in the project. The delivery of

homeowner and new resident orientation (Evergreen Criterion 8-3) will be verified by looking at project files when an HTF staff person makes an initial site visit.

207.9 Completion and Operation

If a project comes to the end of development lacking verification for any of the mandatory Evergreen Criteria or does not have enough points verified to meet threshold requirements, then the project sponsor, the project developer, the architect, and any other key members of the development team will be held accountable.

The project owner will cause the project to be operated according to the Management Plan and the Owner's Manual. HTF monitors will visit the project periodically while the HTF contract is in effect. During those visits they will assess whether the project is being managed according these documents that have been submitted and approved.